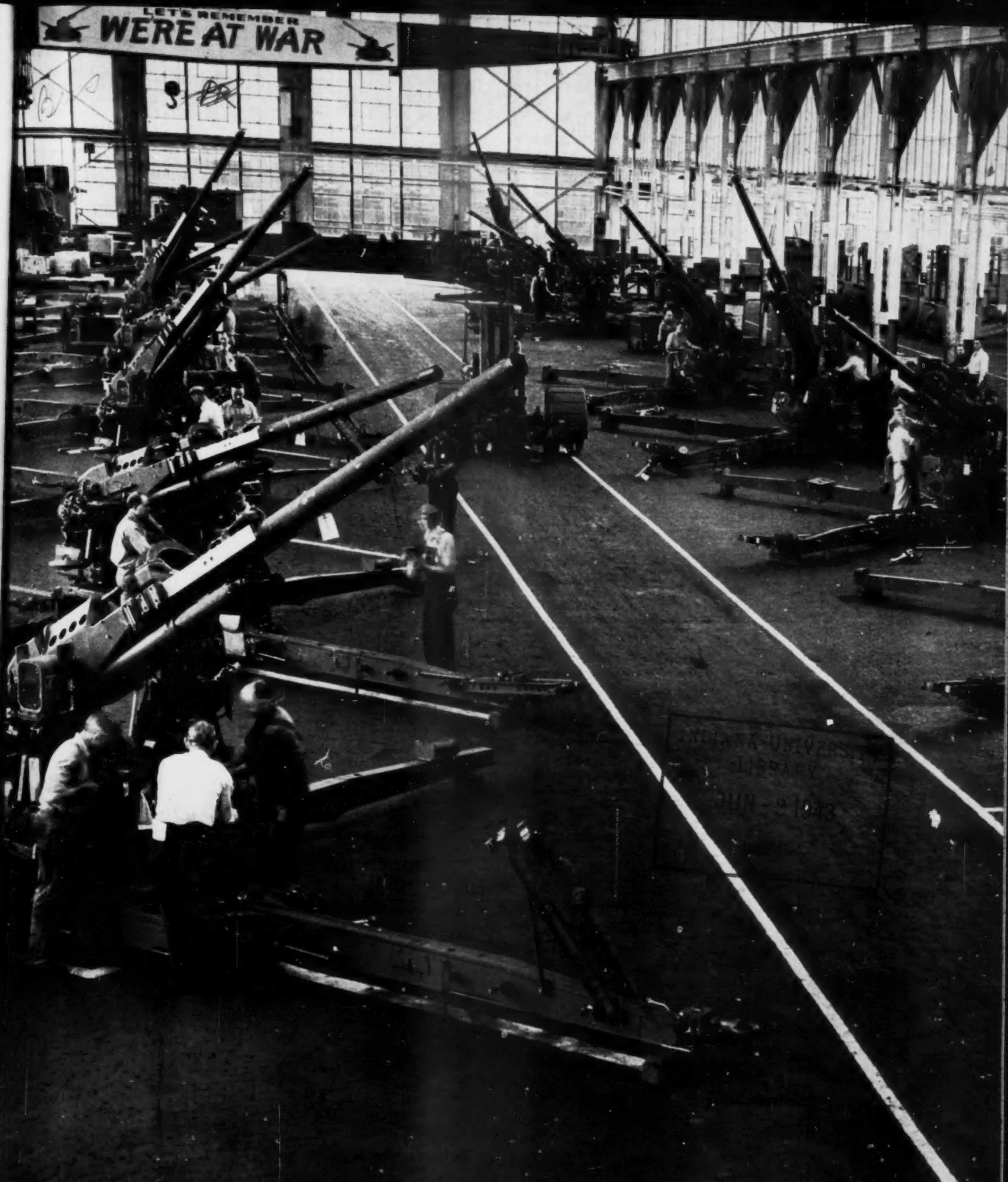

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BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Results of Second War Loan Drive

Goal Exceeded by More Than Five Billion Dollars

Sales of 18,533 million dollars in the Second War Loan Drive conducted during April surpassed all expectations and exceeded the original goal of 13 billion dollars by 43 per cent. Approximately 68 per cent of the securities sold in the April drive were taken by nonbanking investors, according to preliminary figures released by the Treasury. The nonbanking classification excludes subscriptions by U. S. Government agencies and trust funds and subscriptions of dealers and brokers not distributed or earmarked for nonbanking investors. This compared with about 52 per cent in December and represented 157 per cent of the 8 billion dollar quota set for nonbanking investors. Allotments of securities to banks were limited to about 5 billion dollars, consisting of approximately 2.1 billion each of ⅞ per cent certificates and 2 per cent bonds and 800 million dollars net addition to the amount of Treasury bills outstanding.

The tapping of non-bank funds on such a huge scale was made possible by the greatly intensified sales effort of the national and regional War Finance Committees which welded the activities of the Victory Fund Committees and War Savings staffs into a single joint effort during the drive. Credit is especially due the banks for lending their wholehearted support to the campaign by performing the all-important function of actively selling securities to their depositors.

Corporations, concentrating their purchases on certificates and tax notes, more than doubled their subscriptions as compared with December and took the largest share of sales to nonbanking investors. This large increase in purchases by corporations probably reflected the accumulation of funds which normally would be spent for replacement, coupled with the reduced need for additional working capital as the overall growth in inventories tended to decline. Purchases by individuals, partnerships, and personal trust accounts were about twice as large as in December and were the second largest source of nonbanking subscriptions. Insurance companies and savings banks increased their purchases substantially above those of December.

With sales of 1,705 million dollars to nonbanking investors, according to the Treasury's preliminary figures, the Seventh District exceeded its 1,050 million dollar nonbanking quota by 62 per cent, or by 5 per cent more than nonbanking investors in the nation as a whole. The District also accounted for a slightly larger share of nonbanking subscriptions in April than in December. However the favorable implications of this performance are tempered somewhat by the fact that, although the District ranged third in percentage achievement of the goal set by the Treasury for corporations and other institutional investors, it was in eighth place in percentage attainment of the Treasury's goal for individuals, partner-

(Continued on inside back cover)

ANALYSIS OF SUBSCRIPTIONS TO SECURITIES OFFERED DURING SECOND WAR LOAN
By Classes of Investors and By Issues

Class of Investor	Amount of Subscriptions—In Millions of Dollars							
	Savings Bonds Series E	Savings Bonds Series F and G	Tax Notes Series C	2½% Bonds 1964-9	2% Bonds 1950-2	⅞% Certificates	Bills[1]	Total
I Nonbanking Investors:								
(a) Individuals, partnerships, and personal trust accounts	1,473	425	132	540	472	246	—	3,290
(b) Insurance companies	—	—	—	1,582	703	123	—	2,408
(c) Savings banks	—	—	—	550	539	105	—	1,195
(d) Eleemosynary institutions	—	—	—	35	41	41	—	117
(e) State and local governments	—	—	—	181	82	241	—	503
(f) Other corporations and associations	—	242	1,520	504	789	1,983	—	5,038
(g) Subtotal—all nonbanking investors	1,473	667	1,652	3,392	2,626	2,738	—	12,550
II Banking sources (allotments only)	—	—	—	—	2,110	2,138	800	5,048
III Other sources:								
(a) Dealers and brokers[2]	—	—	—	—	189	355	—	544
(b) U. S. Government agencies and trust funds	—	—	—	369	10	13	—	391
IV Total—all investors	1,473	667	1,652	3,761	4,935	5,244	800	18,533

Note: Classifications are preliminary and some figures are partly estimated. Figures are rounded and do not necessarily add to totals.
[1]Net increase in amount outstanding during month only.
[2]Excluding the amounts distributed or earmarked for distribution to nonbanking investors. These have been redistributed among the appropriate nonbanking investor classes.

Detroit Arms the Allies

Key Industrial Center Nears Full Production

Detroit—the world's largest industrial war center—is now rapidly achieving full production from vastly expanded manufacturing facilities, but not without incessant problems of manpower and material shortages, and revised production schedules. An unprecedented volume of war materials now pours forth daily from Detroit to supply Allied forces on world-wide battlefronts on a scale substantially above equivalent production in record peace-time years.

The growth which war has brought to Detroit can be described only as phenomenal. Since 1939, Detroit has received the largest volume of war supply and facilities contracts of any industrial area in the United States. Employment has increased at least 50 per cent. Factory payrolls have more than doubled, reflecting both higher wages and longer hours. More workers have in-migrated to the Detroit area than any other industrial area in the nation. Power consumption has expanded a third. Railroad tonnage is up a fourth. Bank deposits and bank debits have more than doubled. Retail sales have grown a third. Department store sales have gained more than half.

The city of Detroit forms the nucleus of the Detroit Industrial Area which includes Wayne and Oakland counties, comprising a land area of 1,484 square miles. Important war plants have been built in adjoining Macomb and Washtenaw counties. Few sections of the nation are more heavily concentrated with industrial facilities than the Detroit region.

During the 18 months of defense preparations when manufacturing was still principally for civilian use, and during the period of about the same length since Pearl Harbor, most of Detroit's established plants have been converted to war production and scores of new plants have been built. A few of the latter remain to be tooled and completed. Further output gains are to be expected but on a comparatively small scale because each productive unit is being pressed closer to its capacity. Detroit's contribution to the war effort, nevertheless, is likely to continue for some time to be larger than any other industrial center in the nation, although the government is, at present, directly discouraging construction of any additional manufacturing facilities in the area because of the critical labor supply situation.

The present levels of production and general business activity and the shift from the manufacture of civilian goods to war materials obviously have not been realized without serious problems, including temporary conversion unemployment, inadequate housing and transportation for workers, over-taxed public utilities, and manpower and material stringencies—a number of which remain unsolved.

INDUSTRIAL ROLE IN PEACE AND WAR

Throughout the '20's and '30's Detroit was synonymous with the automobile industry which employed fully two-thirds of the wage-earners in the Detroit area. Roughly half of the nation's motor vehicles and more than three-fourths of all passenger cars were built in the area in and about Detroit. In 1939, the Detroit industrial area ranked fourth in wage-earners, third in value of manufactured products, and third in value added by manufacture among the thirty-three recognized industrial areas in the United States. The New York City-Newark-Jersey City, Chicago and Philadelphia-Camden industrial areas exceeded the Detroit area in number of wage-earners, and the first two in value of products and value added by manufacture. On a per capita basis, however, Detroit surpassed all others in value of products manufactured.

In addition to motor vehicles, bodies, parts and accessories, Detroit's plants during peacetime produced important quantities of iron and steel products, machinery, non-ferrous metal products, chemical and allied products, machine tools and accessories, and many others. Collectively these several industries, including automobiles, represented at least three-fourths of Detroit's total peacetime output.

Conversion to war has increased markedly the importance of Detroit's already dominant industries. Experience gained in mass production methods during pre-war years has been put to use with striking results. During 1942 the Detroit "arsenal of democracy" produced tanks, planes, engines, parts, military transport, service and combat vehicles, guns, shells, and tools valued probably in excess of $4 billion. The production value of what might be considered Detroit's comparable industries in 1939 was set at $1.8 billion. With allowance for price increases, overall output of actual goods is now conservatively twice the pre-war level and many times greater in cases of some specific products. Estimates for 1943 indicate that production will be considerably above what it was in 1942. Production of the nation's entire automobile industry this year is expected to reach the $7 billion level, equivalent to roughly 10 million peacetime motor vehicles. The record automobile production year was 1929 when 5.4 million units were built. Output in 1941 was 4.8 million vehicles.

The machine tool and accessories industries led the

way in the Detroit area and elsewhere in making possible the mass production of war materials. Thousands of machine tools and several times more machine tool accessories including dies, jigs, fixtures, and gages are of course indispensable prerequisites to mass production. The automobile companies and scores of small independent manufacturers who had served the automobile industry for twenty years or more boosted machine tool output far above all previous records, particularly after Pearl Harbor. Tool and die makers had been encouraged to expand their facilities early in the defense period and many new plants were constructed. In a comparatively few months after the outbreak of war the machine tool bottleneck in general was broken, although a shortage of certain specialized machine tools still impedes some production. The current level of machine tool production is roughly five to six times the 1939 level, but now that more and more war plants have become "tooled up" for war production it becomes certain that overall machine tool output will decline. The War Production Board announced on May 12, 1943 that "no purchase of new machine tools, machinery or equipment or erection of buildings will be authorized until it has been conclusively proven that the work cannot be done by existing facilities." In numerous instances machine tool firms are already beginning to note a sharp drop in new orders, and expect to rely to an increasing extent in the future upon replacement demand and direct production of war materials.

While Detroit's steel producing facilities are insufficient to meet the requirements of all of its war industries, available steel making capacity which grew up with the development of the automobile industry has been of tremendous help in furthering the war production program. Low hauling costs on Michigan and Minnesota ores, and close proximity to limestone, coal, and scrap iron from the automobile plants were important reasons for the original construction of the Detroit steel mills, especially as steel came to replace wood in the manufacture of many automobile parts. Since many war products, especially tanks, commonly require different types and shapes of steel from civilian automobiles, peacetime steel making facilities also have been altered to meet the demands of new war industries.

Vital war materials are now currently flowing from the assembly lines of well-known peacetime companies having major plants in the Detroit area. General Motors and its subsidiaries are engaged in producing war goods ranging from anti-aircraft guns to aircraft engines—from spark plugs to tanks. Chrysler is best known for its tank arsenal but is also constructing an array of aircraft parts and other equipment. The mammoth Ford Willow Run bomber plant has finally swung into volume production although substantially below original predictions principally because of manpower shortage. At other plants Ford is contributing hundreds of other critical war materials, particularly trucks, mobile equipment, and air-cooled aircraft engines. Hudson Motor Company has undertaken the difficult task of naval arsenal work besides production of a large volume of aircraft assemblies and parts. Murray Corporation of America converted early to war work specializing in airplane wing assemblies. Briggs Manufacturing Company also produces highly important aircraft assemblies including the famous gun turrets. Packard's chief war product is the Rolls-Royce Merlin aircraft engine now turned out on mass production scale. The amphibian tractor is the Graham-Paige specialty. Other important Detroit companies performing important war work are too legion to mention. In almost every instance each is supported by scores of sub-contracting firms within the Detroit area and in other sections of the nation.

WAR CONVERSION RAISES PROBLEMS

Initially there was some optimism in Detroit that the change-over from peace to defense or war production could be accomplished with only a minimum amount of unemployment. Naturally because of the overwhelming importance of the automobile industry in the area, the conversion of its war plants largely determined the effects of the new production program upon the region. In mid-April, 1941, automobile manufacturers officially announced a voluntary agreement to reduce output 20 per cent in the 1942 model year beginning in July, 1941. Price Administrator Leon Henderson announced in July 1941 that the cut would be 50 per cent. In August, 1941 actual production was decreased by 26.5 per cent for the August-November period as compared with the 1940 level. The War Production Board ordered a complete stoppage of civilian automobile production in February, 1942.

A serious recession in the Detroit area resulted from the reduced production schedules and change-over of plant and equipment facilities. Industrial employment fell off after July, 1941 and continued generally downward until late in the first quarter of 1942. The employment index fell to its 1939 level and did not resume record gains until mid-1942. Other indicators of business activity, such as railroad tonnage and power consumption, reflected the conversion slump.

The Automotive Council for War Production which banded together the automobile manufacturers of the nation after Pearl Harbor to further the war effort played an important part in meeting many conversion problems. The group pledged the complete interchange of mass production information, time saving techniques, product improvements, tooling shortcuts, and other manufacturing developments to speed output. Many un-

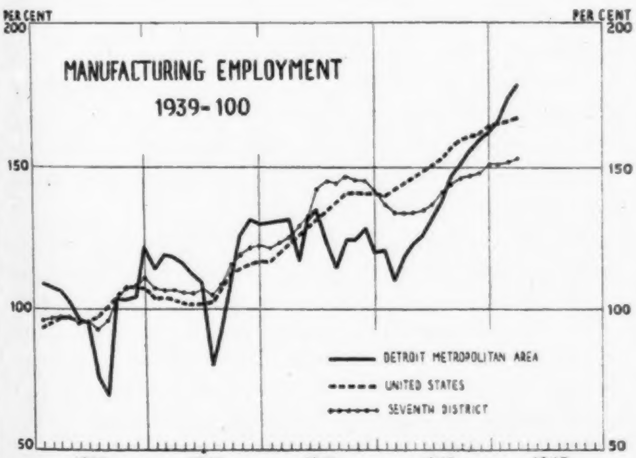
used machines were brought into production through the activities of the Automotive Council.

The growth following the transition period has already been indicated. Re-tooling which had been accomplished early because of the large volume of war production orders which flooded the automobile firms after Pearl Harbor shortened the conversion period considerably. By the end of 1942 virtually all of the conversion work had been accomplished. The gain in factory employment in the Detroit area during 1942 is estimated to have been more than 170,000 hourly paid workers, bringing the estimated total to more than 500,000 persons. The increase in payrolls was even more striking. Wayne County factory wage-earners received an estimated $1,200 million in 1942 as compared with 1941's previous record of $842 million, an increase of more than 40 per cent.

The conversion recession in the Detroit area retarded industrial output substantially for nearly a year but once accomplished has enabled the Detroit area to make an all-time record breaking contribution to the nation's war effort. Employment indexes reveal that Detroit actually had fewer wage-earners employed at the end of 1941 than a year earlier. Important gains were made during 1941 in the Seventh Federal Reserve District and the nation as a whole. Despite the change-over difficulties of 1942, Detroit had a relatively greater increase in employment during the year than the Seventh District, but slightly less favorable than the nation. Since the beginning of 1943, Detroit's gains have far outdistanced either of the other two designated areas—in the face of ever pressing problems of insufficient material and manpower.

CRITICAL MANPOWER SHORTAGE

The present serious shortage of workers is the prime problem now confronting industry and trade in the Detroit area. An estimated 200,000 additional workers



will be needed to fulfill production goals in 1943 according to the War Manpower Commission. In October, 1942 the WMC classified Detroit as a labor shortage area. The area has remained continuously in this classification with little likelihood now that the critical situation will be more than partially alleviated in future months.

The first attempt to control the movement of workers from one industry to another in Detroit to minimize labor turnover and labor pirating was the voluntary labor stabilization plan placed in operation during December, 1942 by the WMC. Under this plan a worker had to obtain a release from his employer before he could change jobs and the transfer had to be cleared through the Detroit United States Employment Service office. Employers were not to hire any worker who did not have a proper release. Enforcement of this plan proved difficult because it was possible for workers to obtain releases on almost any pretext.

In April, 1943 a new regional plan for Detroit, conforming to the regulations of the WMC, was established. Fundamentally the plan is similar to the earlier one but states that no worker who quits an essential job can be rehired unless his separation is approved by the USES and he is issued a statement of availability. Workers in non-essential jobs may go to essential industry without the necessity of a formal release. The regional plan also provides for control over migration which has been an important factor in supplementing Detroit's labor supply during the war, but this migration has aggravated employment problems in other production centers of the nation. No in-migrant may be hired except with the approval of the USES, and the migrant must have a release from the USES office of his point of origin. Workers who are unemployed for 30 days are considered free agents and may accept new jobs. No statement of availability is to be issued solely on the ground that an individual's wage or salary is below the prevailing level of the same or similar work.

The 48-hour week became effective in the Detroit area on April 1, 1943, covering most workers in establishments employing eight or more persons. The order actually affected a comparatively small proportion of all workers because most of the large manufacturing concerns and retail establishments were already on a 48-hour or longer workweek basis. A few thousand workers were reportedly released for more essential work by the ruling.

Strong efforts are now being made by public and private groups to encourage thousands of additional individuals in the Detroit area to accept employment. Women and physically handicapped persons offer the greatest possibilities. The personnel problem facing trade and service activities is equally as great as that confronting industrialists. Inability to replace workers lost to

Selective Service and war industries has forced numerous businesses to suspend operations.

No single order or plan is likely to remedy completely the manpower situation in the Detroit area in the calculable future. Some alleviation is expected, however, from greater use of women and others not normally included fully in the labor supply, the longer workweek, decreased absenteeism, labor stabilization, and a more even flow of materials through the manufacturing processes.

OTHER EFFECTS OF INDUSTRIAL EXPANSION

In-migration of probably more than 450,000 persons since 1940 has caused an acute housing stringency in the Detroit area. The decentralization of a large portion of the new and expanded industrial plants to smaller unincorporated districts outside the city of Detroit has aggravated the housing problem because of the lack of dwelling units and utility facilities to meet the needs of the expanding population. Room for expansion and tax considerations have no doubt contributed largely to the new plant locations.

Housing vacancies in Detroit have fallen from 3.6 per cent at the time of the 1940 Census of Housing to almost none at the present time. On the basis of present USES in-migration estimates, the housing shortage in the city of Detroit alone will probably be as much as 12,000 units by July, 1943. The WMC has estimated that about 90,000 additional in-migrant workers will be needed in the Detroit area before the end of the year, indicating an even more severe housing problem throughout the region, particularly when workers' families are included in the estimates of numbers and sizes of dwellings required.

Illustrative of the housing shortage and manpower situation is the inability of the Ford Willow Run plant, some 30 miles west of Detroit City, to obtain sufficient manpower to operate at capacity. The number of workers needed is now estimated above 30,000. Few housing units exist near the Ford plant.

Already Detroit industrialists independently as well as at the request of the government are locating new plant additions in others sections of the country because of tight manpower and housing conditions existing in the Detroit area.

Transportation of workers between residential and industrial centers in the Detroit area has proved extremely difficult. Several new highways have been completed to relieve some of the automobile traffic congestion resulting from the high proportion of workers depending upon private automobiles to get to and from work. Bus and street railway facilities are jammed, especially during peak hours, causing delays and further congestion. Available equipment is fast wearing out because of overloaded conditions. Transportation inadequacies are held to be one of the major causes of absenteeism among war workers in the Detroit area. The principal solution—other than new cars and busses, which seem unlikely at present — appears to lie in greater use of car-sharing among workers.

Average weekly earnings have advanced sharply, particularly for skilled workers whose numbers throughout the emergency have always been far below the needs of plant managers. Average weekly earnings of Wayne County workers rose from $32.79 in January, 1939 to $59.00 in January, 1943, according to the Michigan Department of Labor and Industry. Earnings of highly skilled machine tool builders and similar craftsmen have been far above this average.

Cost of living has risen steadily in Detroit as elsewhere in the nation. The U. S. Bureau of Labor Statistics index, based upon a 1935-1939 average, increased from 99.8 during 1939 to 122.1 in February, 1943.

Banking statistics reflect forcefully the effect of war conditions in the area. From 1939 to 1943 total deposits of Detroit banks increased almost $1 billion or more than 107 per cent, and bank debits advanced about $10 billion or in excess of 90 per cent. Check collection operations of the Detroit Branch of the Federal Reserve Bank of Chicago increased, on a daily average basis, from 64,000 items in 1939 to more than 103,000 items during January-April, 1943, a gain in excess of 60 per cent.

WHAT LIES AHEAD FOR DETROIT?

Manpower clearly will remain the principal problem of the Detroit area for some time. The closely associated housing and transportation problems similarly present serious difficulties which are not likely to be remedied in the immediate future. Important to Detroit's war industries in future months will be the availability of materials, the possibility of obtaining their more coordinated flow, and the nature and extent of changes in demand for war goods currently in production. It is too early now to speculate on the effect of the cessation of hostilities upon the Detroit area. Obviously there will be a period of reconversion, but this time largely to products with which the leading Detroit manufacturers have had long years of experience.

The most remarkable features of Detroit's growth during the past three years are its conversion from production of peacetime goods to war materials and its ability to expand production despite critical shortages and dislocations in men, materials, and facilities. The ultimate victory of the Allied forces will unquestionably rest to an important degree upon the production, past-present-and-future, of Detroit's war industries.

District Land Values Rise

Loans to Farmers Decline

Rising cash farm incomes have given impetus to land values in the Seventh Federal Reserve District. Values in the District on April 1 were up 16 per cent from a year ago and have risen 5 per cent since January 1 of this year, according to replies to an opinion poll made by over 600 member banks in the Seventh District. The figures represent the collective judgment of the bankers who participated in the survey.

Sales of farms were reported as moderately active throughout the District, with some areas reporting brisk activity, while many other spots reported the land market quiet. Present values of land per acre, as reflected by sales, are reported to be about 16 per cent above "normal" value based upon long-time earning power per acre. Down payments on farms are generally substantial, but a considerable number of deals based on equities below 25 per cent are reported. On the other hand very many farms are being sold for "all cash."

Operating farmers dominate non-operating investors by only about two to one. The reports indicate that about half of the farmer-operator buyers are graduating from the tenant to the owner-operator class.

Farmers of the District are estimated to be devoting about 42 per cent of the increase in their net cash income to the payment of mortgages and other debts. About 13 per cent is going into war bonds, while 40 per cent is represented by increased bank balances and currency holdings.

With farmers in a strong cash position, demand for short-term agricultural credit is generally reported as much below normal. Over three-fourths of the bankers reporting said that they were faced with competition from Federal farm credit agencies, many of the bankers characterizing the competition as serious, with one or more agencies canvassing the farmer directly for loans normally handled by bankers.

BASIS OF THE SURVEY

In making this survey during April 1943, the purpose was to get the judgment of operating bankers familiar with farm and agricultural credit conditions. Bankers were specifically asked not to consult records but to give their judgment of the situation based upon their general knowledge and current experience. In this sense, therefore, the answers made constitute an "opinion" poll.

RISING LAND VALUES

Land values throughout the Seventh District were up 16 per cent above the values of one year earlier, and 5 per cent above the level as of January 1 of this year. The greatest rise was for Indiana, where the increase was indicated to be 17 per cent above April 1942, while Illinois showed a rise of 16 per cent. The year's rise in Iowa land values amounted to nearly 15 per cent, according to the reports.

PERCENTAGE INCREASES IN LAND VALUES

State	April 1942 to April 1943	January 1943 to April 1943
Illinois	16	5
Indiana	17	6
Iowa	15	6
Michigan	11	5
Wisconsin	10	3
Total Seventh District	16	5

Reports from the various states were broken down into six or more areas within the state. On this basis the rates of increase in values for the year April 1942 to April 1943 varied from a low of 5 per cent in the northern part of lower Michigan to well over 20 per cent in northwestern Indiana.

Differences between regions are largely explained by the suitability of the land for production of the commodities that have received the greatest stimulus from the war, such as hogs and dairy products, and by the strong investors' demand that has developed for land. The rises have been particularly sharp in eastern Illinois and northern Indiana, where the investment demand of city purchasers in the Chicago area has been potent.

These percentage rises for the Seventh District portions of the five states are somewhat larger than those reported for the whole states by the Department of Agriculture.

The Department of Agriculture report also indicates that most of the increase occurred in the six months prior to March 1, while the bankers' reports indicate that two-thirds of the rise came between April 1, 1942 and January 1, 1943. Taken together, it would appear that the greatest rise was in the last three or four months of 1942.

A report of the National Association of Real Estate Boards shows that the median rise during the past year, in the judgment of its respondents, was 15 per cent for the nation.

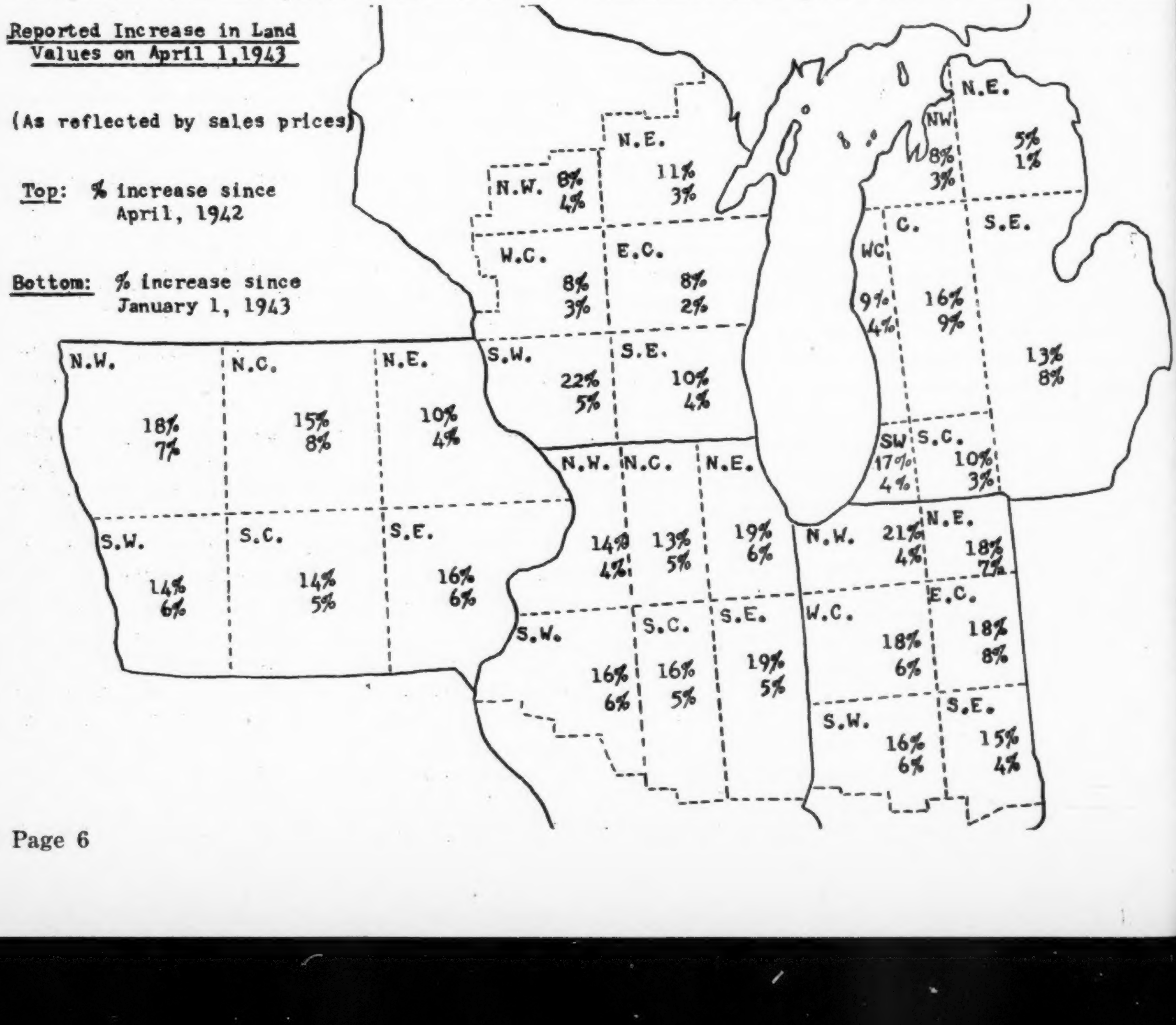
PRESENT VALUES ABOVE "NORMAL"

Bankers were asked what they considered to be the present value of improved farm land in their areas, as reflected by sales prices, and what they thought to be the normal value, based on long-time earning power

per acre. Average of these current values for the District was $119, compared with an estimated "normal" value of $103, showing present values 16 per cent above "normal." Indiana, with present values estimated to average $103 per acre against a "normal" of $83, was considered to be 24 per cent above "normal." Illinois showed a present valuation of $156 against a "normal" of $129, or 21 per cent above. In Michigan the present and "normal" values were $72 and $61, respectively, with present value 18 per cent over "normal." Present values were estimated to be about 10 per cent above "normal" for both Iowa and Wisconsin. Estimated current values in Iowa averaged $113, in Wisconsin $97.

Averages of the two measures showed percentage relations of present value to "normal" varying widely in different District areas. Highest percentages were shown for northeastern Illinois, and southeastern and southwestern Indiana, with present values 28 to 31 per cent above "normal." The location of these areas is shown in the map. Southwestern Michigan's percentage was 36 per cent. At the other extreme are the northwestern and west central areas of Wisconsin, which showed present values 3 to 15 per cent *below* "normal," respectively. A similar picture was shown for northwestern Michigan, where present worth was reported to fall short of "normal" by 19 per cent. The Iowa areas ranged from 1 per cent below to 16 per cent above "normal," with four areas under the 10 per cent average for the state. The balance of Wisconsin areas showed values 10 to 15 per cent above "normal." Six areas of Michigan ranged from 12 to 22 per cent above "normal." The southern three areas of Illinois and the northern four areas of Indiana reflected values 20 to 25 per cent over "normal."

The significance of these figures thus far given is that there has been some inflationary rise in land prices, and that with values much above the level which sober judgment would indicate as the value based upon long-time earning power of the land, future trouble may be brewing for current buyers. It is a rather common saying that in land inflation, the lower valued land gets most over-valued. However, the results of this survey indicate that no such principle is operating at present, for there are high value and low value lands alike showing present market price very high above normal, and there are also both high and low value lands showing a tendency to be little above normal. It should not be forgotten, however, that these reports are the judgment of men, and some error of judgment is normally to be expected. But there is a tendency under the present relations of costs to gross income for farmers to feel that



they can "afford" to pay $5 to $15 per acre above normal value, basing their calculations on what appears to them a strong probability that they can expect one or two more favorable years such as they have just experienced, which will give them a safety margin to justify paying above-normal values.

EQUITIES OF CURRENT BUYERS GENERALLY SOUND

An important measure in sizing up the characteristics of a land boom is the size of the down payment put into the property by the buyer and representing his equity. Bankers were asked to say whether equities in their communities were: "thin" (up to 25%); "substantial" (25% to 50%); or "sound" (50% and over). Equities were reported predominantly thin by 74 banks, while 294 said they were substantial and 339 indicated that down payments were sound, with a very large number of banks making the point that many deals are entirely cash. On this score Illinois bankers reported the best situation with about 5 per cent of the banks reporting the equities as thin, 30 per cent reporting them as substantial, and two-thirds as sound. In Iowa, where equities have ordinarily been somewhat thinner than in other parts of the District, nearly one-fourth of the bankers reported equities as predominantly thin, a half said they were substantial, while a little over one-fourth said they were sound. Indiana bankers' reports were distributed at 5 per cent thin, 40 per cent substantial, and 55 per cent sound. For Michigan the returns showed 9 per cent of the bankers think equities are thin, 40 per cent think them substantial, and a half think them sound. The distribution for Wisconsin was 10, 50, and 40 per cent, respectively. In each of 22 of the 31 regions into which the Seventh District was divided for this study, two or less banks reported equities as predominantly thin. In all six regions of Iowa, banks reporting equities as substantial outnumbered those reporting them as sound. In Illinois reports of sound equities far outnumbered those showing them substantial. The situation in Wisconsin was similar for each region to that described for Iowa, while Indiana's regions were similar to Illinois regions. In Michigan a mixed situation prevailed, with some areas showing more reports of substantial equities than sound ones, while others showed more reports of sound than substantial down payments.

From the standpoint of land inflation the size of down payments which represent the buyers' equity is important because when price declines and reduced incomes occur, the owner's ability to withstand an unfavorable economic period depends, to a very large degree, upon the size and interest burden of his debt. Therefore, the larger his equity the smaller will be his debt and his interest cost, and the less potentially will be the pressure upon him for foreclosure of the mortgage in time of difficulty.

WHO IS BUYING FARMS?

Limitations of labor and machinery furnish something of a check on farmer buying of land. Yet swelling incomes for both farmers and city people have resulted in an active land market. In analyzing the situation, it is of value to have some idea of the relative importance of farmers and non-farming investors as purchasers of farms. The bankers were asked to indicate which predominated in the buying of farms in their communities. In the Seventh District nearly one-third of the reporting banks said investors who will not operate were the predominant buyers in their area. Illinois bankers' reports on this question show that over 40 per cent of them considered investor buying predominant over farmer buying of land. In the region designated on the map as northeastern Illinois, adjacent to Chicago, investors dominated farmer buyers in nearly 75 per cent of the reports. Investors were more important than farmer buyers in 30 per cent of the Wisconsin reports, and in the southeastern area were dominant in over half of the reports. They were dominant in a little over one-fourth of the reports from Indiana, accounted for one-fourth of the reports from Michigan, and one-fifth in Iowa.

Many reports are circulating as to the reasons for the heavy buying of farms by non-operating investors. These reports range all the way from stories about caravans of wealthy "eastern capitalists" combing the country looking for good farm land as investment hedges against inflation to numerous instances of people with incomes in the lower end of the middle brackets looking for a "refuge" in case things "go to pot," or for a farm connection in order to have a little more security against potential food shortages and the rationing program.

ARE TENANTS "GRADUATING" TO FARM OWNERSHIP?

When reports on farmer buyers of land are broken down as between farmers who were tenants and those who are adding to present holdings, there was a tendency for "owners adding to holdings" to be reported more frequently than "farmers who were tenants." For the District as a whole 232 bankers said owners adding to holdings predominated in their territory, while 189 said farmers who were tenants predominated as buyers of farm land. In Michigan and Indiana reports showed that owners predominated as buyers in twice as many cases as did former tenants. For Illinois, owners were mentioned as predominant 50 per cent more frequently than tenants. The reports for Wisconsin were evenly divided between the two groups. Only in Iowa were tenant purchasers predominant more frequently than owners, with 71 bankers reporting tenant purchases as dominant and 52 bankers showing owners adding to present holdings as the predominant farmer-buyers.

BANKERS' SHORT-TERM FARM LOANS DECLINING

Two-thirds of the 630 bankers responding to the question on applications for short-term credit in the last three months said that requests were much below normal, another one-fifth of them said they were a little below normal, while only one banker out of every eight thought requests were about normal and only nine bankers reported applications were above normal, five of whom were in Wisconsin.

Although farm production-and-living expenses have been rising, they have not as yet risen at as rapid a rate as has cash income. Farmers are, therefore, generally in somewhat better position to do their own financing than customarily. Furthermore, many items that are normally a part of the expenditure pattern for the farm and the farm family are scarce or non-existent. Such loans as are being made by the bankers appear in their judgment to be going into the following expenditures: to buy real estate, 12 per cent; to buy dairy stock, 12 per cent; to buy shoats and sows, 9 per cent; to buy feeders, 18 per cent; to buy feeds, 14 per cent; to carry marketings, 6 per cent; to buy equipment and repairs, 12 per cent; for family and personal use, 11 per cent; other outlets, 6 per cent. In Illinois 40 per cent were reported as being used to buy feeders and feeds, and 43 per cent was the report for Iowa on these items. In Indiana, Michigan and Wisconsin 16 to 19 per cent of such credit was reported as being used to buy real estate. Equipment and repairs were an important use of credit in Michigan and Wisconsin, accounting for 18 and 17 per cent, respectively.

In addition to the declining demand for loans on the part of farmers, a very important factor in the banker's situation is the serious competition from governmentally subsidized and operated farm credit agencies. Out of the banks reporting, 511 said they were experiencing competition from Production Credit Associations. Some 259 said there was a little competition, 231 said it was serious, and only 41 said they were not facing some competition. A total of 302 bankers said Farm Security agencies were competing, 191 said "a little" and 64 said "serious." An additional 108 bankers said there was no competition from F.S.A. Many bankers went into detail to comment on these agencies, and the consensus of opinion seems to be that, in general, the bankers look upon F.S.A. as operating mostly in a field in which by and large they cannot or do not care to make loans. Regional Agricultural Credit Corporation loans were reported as in competition by 267 banks, 153 said there was a little competition from this source, and 74 said this competition was serious, while 116 said they were experiencing no competition from R.A.C.C. as yet. Scores of bankers wrote extended comments on the general problem of government competition. Generally they regard this governmental competition as unnecessary, unwise, and unfair, especially at a time when banks are being asked to carry—and are willing and anxious to carry—heavy burdens of war work.

HOW ARE FARMERS USING INCREASED NET INCOMES?

Bankers were asked to give their judgment of the use farmers were making of the increase in their net cash incomes. For the Seventh District as a whole they estimated that 42 per cent was going to payments of mortgages and other debts, 13 per cent was being invested in war bonds, 32 per cent was accumulating in increased bank balances, 8 per cent was represented by increased currency holdings, and 5 per cent was going to other uses. For four states the payment of mortgages and other debts ranged from 40 to 43 per cent, while for Wisconsin the reports showed 50 per cent going to this use. On investment in bonds the percentages reported were: Iowa, 16 per cent; Illinois, 13 per cent; Michigan, 12 per cent; Indiana, 10 per cent; and Wisconsin, 9 per cent.

From the standpoint of fighting inflation, the payment of debts is a healthy sign. Every dollar the farmer uses to retire debt is a dollar less he has to put pressure on markets with short supplies of goods and services. If the recipient puts the funds into bonds or otherwise keeps the dollars out of the markets, it aids the fight on inflation. The results of this study showing that 13 per cent of the increase in net cash income is going into war bonds must be considered in light of the estimate that 42 per cent is being used for repayment of mortgages and other debts.

From the banking viewpoint there is some interest in the showing made with regard to bank balances and currency holdings. For the District as a whole 40 per cent of the increase in net cash income was accounted for by these two items. Increased balances were in a ratio of 4 to 1 to increased currency holdings. In Illinois the ratio was 7 to 1; Iowa's was a little above 5 to 1; Indiana estimates yield a ratio of 3.5 to 1. In Michigan and Wisconsin the increase in net cash income going into currency holdings appears disproportionately large. In Wisconsin the reports show farmers as estimated to be carrying one-third of their increased cash holdings in the form of currency, and in Michigan 40 per cent of the increased cash holdings are estimated to be in this form. These variations in the relationship between cash in bank balances and in currency holdings appear to be largely explained by the number and location of country banks serving the farm territories. The variation in the proportions is rather closely related to the number of country banks per thousand farms in each state. Apparently more currency is needed in areas with fewer banks and greater distances from the farm to the bank.

SALES AND QUOTAS FOR NONBANKING INVESTORS Regions in the Seventh Federal Reserve District (Amounts in millions of dollars)				
Region	Non-Bank Quota	Sales to Nonbanking Investors		
		Amount	Percent of District	Percent of Quota
Metropolitan Chicago	370	705	41.5	190.5
Rest of Illinois	90	108	6.4	120.0
Indiana	110	184	10.8	167.3
Iowa	100	136	8.0	136.0
Michigan	220	342	20.1	155.5
Wisconsin	160	225	13.2	140.6
Total Seventh District	1,050	1,700	100.0	161.9

RESULTS OF SECOND WAR LOAN DRIVE

(Continued from inside front cover)

ships, and personal trust accounts. As a result the District was tied for sixth place with the New York and St. Louis Districts in terms of achievement for nonbanking investors as a whole.

Total sales of Government securities to nonbanking investors in the Seventh District during the April campaign amounted to 1,700 million dollars, according to final figures compiled by the U. S. Treasury War Finance Committee for the Seventh District. All regions in the District exceeded their nonbanking quotas and the relative performance varied from over 190 per cent of the quota for Metropolitan Chicago, consisting of Cook, Lake and Du Page Counties, to 120 per cent of the quota for the rest of Illinois.

One of the objectives of the Second War Loan Drive was to obtain a more widespread distribution of Government securities to individuals. While the sale of Government securities to corporations and institutional investors prevents the growth in deposits which would otherwise occur if these same securities were sold to banks, it is important that great stress be laid upon increasing the sale of Government securities to individuals. Purchases of Government securities by corporations and institutional investors are made from funds which are not likely to exert any significant inflationary pressure in the markets for consumption goods. On the other hand, purchases by individuals are more likely to draw upon funds which would otherwise be spent on consumption goods.

Although much remains to be done in expanding the sale of Government bonds to individuals, performance in this regard during the April drive showed improvement over the December results. Sales to individuals, partnerships, and personal trust accounts totaled 3,290 million dollars in April. This was more than double the comparable figure for December and represented almost 18 per cent of total sales against only slightly more than 12 per cent in December. Purchases by individuals, partnerships, and personal trust accounts supplied over 26 per cent of total nonbanking purchases in April compared with less than 24 per cent in December. However, the magnitude of the task still confronting us is indicated by the smallness of these percentages, and particularly by the relatively slight increase in the proportion of nonbanking subscriptions taken by individuals, partnerships, and personal trust accounts between the two financing dates. In the next drive, which probably will not come before September, there must be a substantial increase in subscriptions by individual investors.

COMPARISON OF SUBSCRIPTIONS BY NONBANKING INVESTORS TO SECURITIES OFFERED DURING SECOND WAR LOAN WITH THE GOALS SET FOR THESE SUBSCRIPTIONS
By Federal Reserve Districts

District	Amounts in Millions of Dollars						Percent of Goal Accomplished		
	Individuals, Partnerships and Personal Trusts		Other Nonbanking Investors		All Nonbanking Investors		Individuals, Partnerships and Personal Trusts	Other Nonbanking Investors	All Nonbanking Investors
	Subscriptions	Goal	Subscriptions	Goal	Subscriptions	Goal			
Total—all Districts	3,290	2,500	9,259	5,500	12,550	8,000	132	168	157
Chicago	495	400	1,210	650	1,705	1,050	124	186	162
Boston	166	200	933	600	1,099	800	83	156	137
New York	737	600	4,119	2,400	4,856	3,000	123	172	162
Philadelphia	202	150	444	325	645	475	135	137	136
Cleveland	304	250	668	300	972	550	122	223	177
Richmond	195	150	393	200	588	350	130	197	168
Atlanta	236	125	211	125	448	250	189	169	179
St. Louis	155	100	251	150	406	250	155	167	162
Minneapolis	126	75	170	100	296	175	168	170	169
Kansas City	163	100	175	125	338	225	163	140	150
Dallas	149	75	183	125	333	200	199	146	167
San Francisco	333	275	502	400	835	675	121	126	124
Unallocated	29	—	—	—	29	—	—	—	—

Note: Classifications are preliminary and some figures are partly estimated. Figures are rounded and do not necessarily add to totals.

SEVENTH FEDERAL

RESERVE DISTRICT